

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton;
Tony Hammond; and
Robert G. Taub

Transfer of Parcel Post to the
Competitive Product List

Docket No. MC2012-13

NOTICE AND ORDER CONCERNING TRANSFER OF
PARCEL POST TO THE COMPETITIVE PRODUCT LIST

(Issued May 1, 2012)

On April 26, 2012, the Postal Service filed a notice with the Commission under 39 U.S.C. 3642 and 39 CFR 3020.30 *et seq.* requesting that certain changes be made to the market dominant and competitive product lists.¹ Specifically, the Postal Service proposes to (1) remove Parcel Post from the market dominant product list; (2) add “Parcel Post,” a nearly identical product, to the competitive product list; and (3) leave Alaska Bypass Service, which is currently part of Parcel Post, on the market dominant product list.² *Id.* at 1.

¹ Request of the United States Postal Service to Transfer Parcel Post to the Competitive Product List, April 26, 2012 (Request).

² Alaska Bypass Service allows shippers to send shrink-wrapped pallets of goods intra-Alaska at Parcel Post rates from designated “hub points” to designated “bush points.” *Id.*, Attachment B at 2.

Parcel Post is an economical ground package delivery service for less-than-urgent and oversize packages that competes with comparable products offered by competitors. *Id.* at 1-2. The Postal Service asserts that Parcel Post fulfills all criteria for competitive products under 39 U.S.C. 3642. *Id.* at 2. It requests that Parcel Post be removed from the market dominant product list and that a similar product called Parcel Post be added to the competitive product list. The Postal Service states that the new competitive Parcel Post product would be nearly identical to the current Parcel Post offering, except that Alaska Bypass Service would remain on the market dominant product list. *Id.*

Supporting materials. To support its Request, the Postal Service filed the following attachments:

- Attachment A—Resolution of the Governors of the United States Postal Service, March 21, 2012 (Resolution No. 12-02);
- Attachment B—Statement of Supporting Justification; and
- Attachment C—Proposed Mail Classification Schedule changes.

In its Statement of Supporting Justification, the Postal Service states that Alaska shippers will still have access to Alaska Bypass Service on the market dominant product list after Parcel Post is removed. Thus, it asserts that the proposed changes will continue to meet the objectives and factors in 39 U.S.C. 3622(b) and (c). *Id.*, Attachment B at 2.

The Postal Service explains why the proposed changes will not violate the standards of 39 U.S.C. 3633. It notes that in FY 2011, Parcel Post had an estimated cost coverage of 89.2 percent. It recognizes that a price increase will be necessary to ensure that Parcel Post covers its attributable costs and prohibits market dominant products from subsidizing competitive products. It asserts that the proposed changes

should also cover an appropriate share of its institutional costs assuming that the current 5.5 percent contribution rate remains the same.³ Request, Attachment B at 3.

The Postal Service contends that Parcel Post has small market shares in both the ground package retail market (17.6 percent) and the broader ground package market (1.1 percent), even though Parcel Post prices are lower than those charged by UPS and FedEx for comparable products.⁴ *Id.*, Attachment B at 5. It notes that a comparison of the service standards indicates that UPS and FedEx provide faster guaranteed delivery times than those currently offered by Parcel Post. *Id.* For these reasons, the Postal Service contends that current Parcel Post customers would have viable alternatives from competitors if the Postal Service were to raise prices, degrade service, or decrease output. *Id.*, Attachment B at 6.

In describing the views of current Parcel Post customers, the Postal Service asserts that their major concern would likely be the price increases resulting from the proposed changes. The Postal Service acknowledges that a modest price increase will be necessary to attain full cost coverage. However, it contends that Priority Mail prices will effectively serve as a price cap because the Postal Service cannot raise Parcel Post prices above Priority Mail prices without shifting Parcel Post volume to Priority Mail. It explains that Parcel Post will continue to have the same service standards if the proposed changes are implemented, ensuring that customers in rural communities will continue to receive reliable ground package delivery service. *Id.*, Attachment B at 8.

The Postal Service estimates that only 15 percent of Parcel Post's volume is attributable to small businesses. Thus, it concludes that most small businesses should not see significant changes to their mailing options as a result of the proposed changes.

³ See 39 U.S.C. 3633(a)(3); 39 CFR 3015.7(c). The Commission is currently re-evaluating the institutional cost contribution requirement for competitive products. See Docket No. RM2012-3, Order No. 1108, Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, January 6, 2012.

⁴ The Postal Service states that Parcel Post primarily competes in the ground package retail market, which includes households and small businesses with fewer than nine employees. *Id.*, Attachment B at 4.

Id., Attachment B at 9. The Postal Service contends that the contents of Parcel Post will fall outside the scope of the letter monopoly and that any letters contained in these parcels will fall within the scope of the exceptions or suspensions to the Private Express Statutes. *Id.*, Attachment B at 6-7.

Notice of filings. The Commission establishes Docket No. MC2012-13 to consider the Postal Service's proposals described in its Request. Interested persons may submit comments on whether the Request is consistent with the policies of 39 U.S.C. 3642, 3633, and 39 CFR 3020.30 *et seq.* Comments are due by May 31, 2012. Reply comments are due by June 15, 2012.

The Request and related filings are available on the Commission's website (<http://www.prc.gov>). The Commission encourages interested persons to review the Request for further details.

The Commission appoints Kenneth E. Richardson to serve as Public Representative in this proceeding.

It is ordered:

1. The Commission establishes Docket No. MC2012-13 to consider matters raised by the Request.
2. Pursuant to 39 U.S.C. 505, Kenneth E. Richardson is appointed to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.
3. Comments by interested persons are due by May 31, 2012.
4. Reply comments are due by June 15, 2012.

5. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary